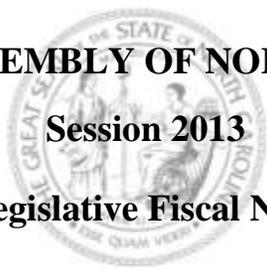


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2013

Legislative Fiscal Note

BILL NUMBER: House Bill 959 (First Edition)

SHORT TITLE: Expand 1%/\$80 Rate for Mill Machinery.

SPONSOR(S): Representatives Malone, Lewis, Starnes, and Collins

FISCAL IMPACT					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
General Fund Revenues:	0.5	0.5	0.5	0.5	0.5
General Fund Expenditures:	2.8	2.8	2.9	2.9	3.0
NET STATE IMPACT	(\$2.3)	(\$2.4)	(\$2.4)	(\$2.4)	(\$2.5)
Local Impact					
Revenues:					
Expenditures:	1.2	1.2	1.2	1.2	1.2
NET LOCAL IMPACT	(\$1.2)	(\$1.2)	(\$1.2)	(\$1.2)	(\$1.2)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
North Carolina Department of Revenue					
EFFECTIVE DATE July 1, 2013					
TECHNICAL CONSIDERATIONS:					
None					

BILL SUMMARY: HB 959, Expand 1%/\$80 for Mill Machinery amends G.S. 105-187.51B(a), Article 5F. This change imposes, Article 5F, a privilege tax at a rate of 1% of the sales price on the equipment or personal property up to \$80 per item, in lieu of the State and local sales tax rate, for a company engaged in fabrication of metal work. This preferential rate applies to purchases of equipment or an attachment or repair part that is (1) capitalized by the company for tax purposes and (2) used by the company in the fabrication of metal products or used to create equipment for the fabrication of metal products. Effective July 1, 2013, the proposed legislation expands the preferential sales tax rate under Article 5F to three types of industries:

- 1) NAICS 332312, fabricated structural metal manufacturing,
- 2) NAICS 332313 plate work manufacturing, and
- 3) NAICS 332322, sheet metal work manufacturing.

ASSUMPTIONS AND METHODOLOGY:

Expanding Article 5F, the 1% or \$80 privilege license tax for mill machinery, will reduce General Fund Availability by approximately \$3.0 million per fiscal year. The Article 5F expansion also reduces local government budget availability by \$1.2 million. Fiscal Research relied on data from the 2007 Economic Census (EC) and the Annual Capital Expenditures Survey (ACES) to estimate the fiscal impact of expanding the preferential rate on mill machinery to three industries, 1) fabricated structural metal manufacturing, 2) plate work manufacturing, and 3) sheet metal work manufacturing.

In 2007, these three North Carolina industries made an investment of \$55.23 million in capital. Fiscal Research utilized annual wage data to estimate growth in the industry sectors between 2007 and 2013. Table 1 provides more detail on how the 2007 figures were adjusted to represent 2013 estimates.

Developing an estimate also required that Fiscal Research identify the percentage of capital investment dedicated towards equipment versus other types of capital (i.e. buildings and land). According to the ACES, manufacturers dedicate 80.6% of all capital expenditures towards equipment costs. Fiscal Research applied this percentage to total capital investment within the three industries to estimate the amount expended on equipment (\$69.84 million *80.6% =\$56.3 million).

NAICS	Description	2007 Total Capital Expenditures	2007-2011 Change in Annual Payroll	2013 Total Capital Expenditures¹
332312	Fabricated structural metal manufacturing	\$21.27	53%	\$32.57
332313	Plate work manufacturing	\$7.91	31%	\$10.35
332322	Sheet metal work manufacturing	\$26.05	3%	\$26.92
TOTAL		\$55.23		\$69.84

¹ Equipment purchases accounted for 80.6% of all capital expenditures in the manufacturing sector. Table 4b. 2011 Annual Capital Expenditures Survey, Capital Expenditures for Structures and Equipment for Companies With Employees by Industry: 2010
Sources: 2007 Economic Census, County Business Patterns, 2007 & 2011, Revised

After estimating the amount of annual capital equipment sales in the 1) fabricated structural metal manufacturing, 2) plate work manufacturing, and 3) sheet metal work manufacturing industries, Fiscal Research calculated the difference between current sales tax collections and projected collections under Article 5F, the 1%/\$80 tax. The State currently collects \$2.8 million per fiscal year in sales and use taxes from equipment sales used in the fabricated structural metal, plate work, and sheet metal work manufacturing industries. The State, under HB 959, would collect \$0.5 million in revenue from these same sales; a \$2.3 million reduction in General Fund revenue. Table 2 highlights sales and use tax collections under current law and the General Fund impact under HB 959.

Table 2: Fiscal Impact of HB 959, \$ in millions						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
State sales tax collections	\$2.67	(\$2.75)	(\$2.81)	(\$2.86)	(\$2.91)	(\$2.96)
Collections under HB 959		\$0.46	\$0.47	\$0.48	\$0.49	\$0.50
General Fund impact		(\$2.29)	(\$2.34)	(\$2.38)	(\$2.42)	(\$2.46)
Local Impact under HB 959						
Local sales tax collections	\$1.13	(\$1.16)	(\$1.18)	(\$1.20)	(\$1.23)	(\$1.25)
Sources: 2007 Economic Census, County Business Patterns, 2007 & 2011						

SOURCES OF DATA:

2007 Economic Census

County Business Patterns, 2007 & 2011

2011 Annual Capital Expenditures Survey, Capital Expenditures for Structures and Equipment for Companies with Employees by Industry: 2010, Table 4b, available at:

<http://www.census.gov/econ/aces/report/2011/capitalspendingreport2011.pdf>

TECHNICAL CONSIDERATIONS: None

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